Sobeys

Annual Report 1976

Sobeys Stores Limited
30th Annual Report
Year Ended May 1, 1976

Directory

Directors

Merritt G. Crawford	*New Glasgow, Nova Scotia*
William G. Lumsden	*Burlington, Ontario*
Arthur R. Lundrigan	*Corner Brook, Newfoundland*
J. Skiffington Murchie	*New Glasgow, Nova Scotia*
Henry B. Rhude	*Halifax, Nova Scotia*
David F. Sobey	*New Glasgow, Nova Scotia*
Donald R. Sobey	*Stellarton, Nova Scotia*
Frank H. Sobey	*Abercrombie, Nova Scotia*
Harold M. Sobey	*New Glasgow, Nova Scotia*
William M. Sobey	*Stellarton, Nova Scotia*
Charles E. Stanfield	*Truro, Nova Scotia*
Arthur Steele	*Middleton, Nova Scotia*

Officers

Frank H. Sobey	*Honorary Chairman*
William M. Sobey	*Chairman and Chief Executive Officer*
David F. Sobey	*President*
J. Skiffington Murchie	*Executive Vice-President*
Harold M. Sobey	*Vice-President*
D. B. Eddy	*Vice-President, Personnel & Public Relations*
Frank J. Hickey	*Vice-President, Merchandising*
Merritt G. Crawford	*Treasurer*
J. Robert MacMillan	*Secretary*

Head Office

Stellarton, Nova Scotia
Established 1906
Incorporated 1946

Transfer Agent and Registrar

Montreal Trust Company
Montreal — Toronto
Saint John — Halifax

Auditors

H. R. Doane and Company

Bankers

The Bank of Nova Scotia

To the Shareholders

Sales for the year (before rental income) totalled $209,000,000, an increase of 15.5% over last year. This increase reflects the Company's steadily increasing share of the Atlantic Provinces retail market.

Net income of $689,229, or 79¢ per common share, is down from last year. This reduction reflects several management decisions on accounting treatment taken in the fourth quarter including a change in the basis of calculation of reserves for accounts receivable. The conservative policy being followed by the Company in respect of its wholesale subsidiary companies is to fully reserve against all accounts receivable outstanding for more than 28 days. As a result the accounts receivable reserves of these subsidiaries were increased substantially during the fourth quarter. Had these decisions not been implemented, earnings for the year would have been well ahead of last year's earnings.

Cash Flow for the year was $3,273,923, or $4.23 per common share, while Working Capital at the year end was $243,279. Regular dividends were paid on the Company's preferred shares as well as dividends of 40¢ on each of its Class "A" common shares.

The Company is now operating 63 stores in the Atlantic Provinces and the Gaspe Coast of Quebec.

During the fiscal year, a new unit was opened in Simpsons Mall, Halifax and a new unit was opened in Gaspe, Quebec to replace an older unit.

Five of our existing stores were enlarged and modernized.

The Company currently has two stores under construction and two additional units are being enlarged and modernized.

We are continuing to experience less than satisfactory earnings due, in part, to the continuation of very heavy price competition. It is, however, Management's intention to remain competitive in all areas we operate in order to maximize our sales and market share in the Atlantic Provinces.

Through a continuous upgrading of our existing facilities and opening of new stores, we are confident this will be achieved.

During the period, the Company's subsidiary, LUMSDEN BROTHERS LIMITED, continued the expansion of its physical facilities. A new frozen food warehouse was completed and a large cash and carry wholesale warehouse was opened, both in Burlington while the Veri Produce division moved its headquarters from Hamilton to new and larger quarters in Burlington. These additions required large capital and operating expenditures which were, for the most part, of a non-recurring nature.

The food merchandising program offered by LUMSDEN to its customers is one of the most complete retail packages in Canada. Sales continue to grow and the profit outlook for this subsidiary is bright.

T.R.A. FOODS LIMITED and its subsidiary JOHNSON AND MACDONALD LIMITED continue to expand their service to the wholesale food market of southern, western and northern Nova Scotia. A new and modern warehouse constructed by T.R.A. in Middleton, Nova Scotia is operating well and has proved to be an important addition to the facilities of this subsidiary. Sales and earnings continue to increase as these companies improve their market penetration.

Sobeys

Your Company and its subsidiaries are subject to restraint on prices and profits, dividends and compensation to employees, under the provisions of the Anti-Inflation Act and Regulations thereto. Your Company supports the Federal Government in attempting to curb inflationary pressures and we are striving to comply with the legislative measures introduced in October, 1975.

During the year, the Company entered into an agreement to sell its 91.4% holding of the common shares of ATLANTIC SHOPPING CENTRES LIMITED to Empire Company Limited. The sale price of these shares was based on an appraisal prepared for the Company by Wood Gundy Limited. The transaction was completed on May 3, 1976, immediately following the end of the Company's 1976 fiscal year. Because of the importance of this sale, your Directors have included in the balance sheet forming part of the consolidated financial statements a third column which reflects its financial position on completion of the sale and related transactions.

Several factors influenced your Directors in selling the shares of Atlantic.

The principal business of your Company is the sale of groceries. As the Company expands additional Working Capital is required. In the past, this has come principally from Retained Earnings. However, the rate of expansion of the Company in recent years has required additions to Working Capital greater than can be provided from earnings. Your Directors felt that it was in the best interest of the shareholders to obtain the necessary Working Capital by the sale of its investment in Atlantic.

The expansion of the Company requires an increasingly large investment in fixtures and equipment. It is desirable to finance the purchase of these assets by long term borrowings. However, the Company's capacity to borrow long term was limited to some extent by the existence of the long term debt of Atlantic. By disposing of the shares of this subsidiary, the Company's ability to borrow and to finance is substantially improved.

You will note from the financial statements that this sale and related transactions has resulted in an increase in Working Capital from $243,279 to $5,036,636 and substantially increased shareholders' equity.

This large addition to Working Capital will improve substantially your Company's profit potential. The outlook for the current year is good and your Directors view the future with confidence and optimism.

IN MEMORIAM — On Wednesday, July 7, 1976, the death occurred of Harold MacLellan Sobey, a Vice-President and Director of the Company. Mr. Sobey's career in the food business covered approximately three decades and his contribution to the Company, his counsel and assistance will be deeply missed by all.

IN APPRECIATION — The Directors extend their thanks to the many employees of the Company and recognize that they have made possible the Company's achievements and growth.

WILLIAM M. SOBEY
Chairman & Chief Executive Officer

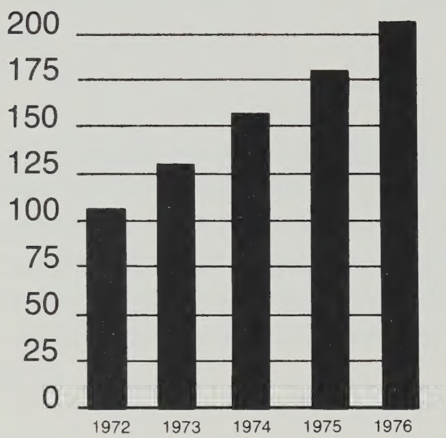
DAVID F. SOBEY
President

Consolidated

Five Year Review

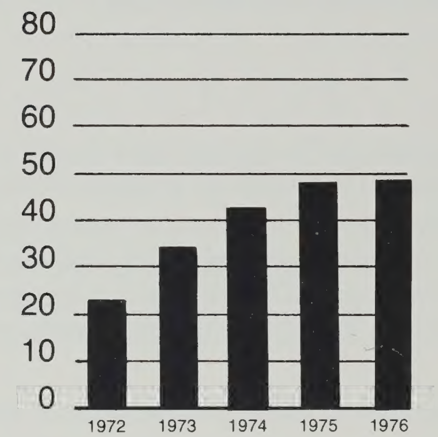
Sales

(millions of dollars)



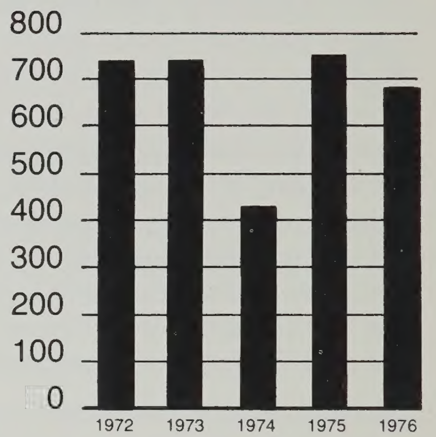
Fixed Assets

(millions of dollars)



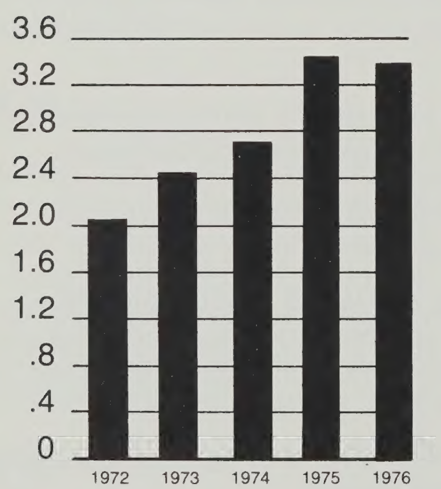
Earnings Before Extraordinary Items

(thousands of dollars)



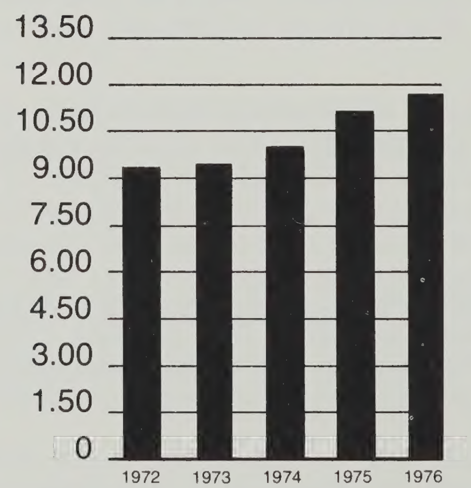
Cash Flow

(millions of dollars)



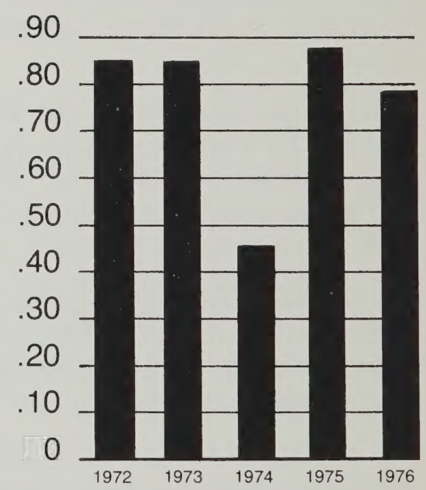
Equity Per Share

(dollars)



Common Share Earnings Before Extraordinary Items

(dollars)



Consolidated Statement of
Earnings
Year Ended May 1, 1976

	1976	1975
Revenue		
Sales	**$209,368,726**	$181,337,481
Rentals	**7,417,574**	6,491,163
	216,786,300	187,828,644
Cost of sales, selling and administrative expenses	**209,726,417**	181,161,619
	7,059,883	6,667,025
Depreciation	**2,082,725**	1,952,264
Interest on long term debt	**3,219,202**	2,741,279
Interest on current debt	**490,443**	567,270
	5,792,370	5,260,813
Earnings before other items	**1,267,513**	1,406,212
Gain on sale of property and investments	**69,131**	181,508
Earnings before income taxes and minority interest	**1,336,644**	1,587,720
Income taxes (Note 5)		
Current	**126,036**	336,266
Deferred	**469,580**	386,754
	595,616	723,020
	741,028	864,700
Minority interest	**51,799**	106,474
Earnings before extraordinary items	**689,229**	758,226
Extraordinary items (Note 6)		321,990
Net earnings	**$ 689,229**	$ 1,080,216
Earnings per common share before extraordinary items	**$ .79**	$ .88
Extraordinary items		.41
Earnings per common share	**$ .79**	$ 1.29
Cash flow per share	**$ 4.23**	$ 4.43

Consolidated Statement of Retained Earnings

Year Ended May 1, 1976

Sobeys

	(Note 11)	1976	1975
Balance, beginning of year			
As previously reported	**$6,360,033**	**$5,910,177**	$4,857,329
Adjustment of prior years' taxes		**46,760**	71,921
As restated	**6,360,033**	**5,956,937**	4,929,250
Net earnings		**689,229**	1,080,216
Transfer from capital redemption reserve fund			244,520
Gain on sale of investment			
Atlantic Shopping Centres Limited	**2,885,129**		
	9,245,162	**6,646,166**	6,253,986
Dividends paid			
Preference		**77,789**	77,845
Class "A" common		**208,344**	208,344
Redemption of preference shares			10,860
		286,133	297,049
Balance, end of year	**$9,245,162**	**$6,360,033**	$5,956,937

Consolidated Statement of
Changes in Financial Position

Year Ended May 1, 1976

	(Note 11)	1976	1975
Source			
Operations			
Net income		$ 689,229	$1,080,216
Depreciation		2,082,725	1,952,264
Deferred income taxes		469,580	353,045
Minority interest		32,389	44,942
		3,273,923	3,430,467
Decrease (increase) in mortgages and loans receivable		48,583	(1,549)
Proceeds from long term debt			
Real estate		2,753,148	3,590,892
Merchandising			717,904
Income tax reassessments		789	108,473
Proceeds from sale of investment			
Atlantic Shopping Centres Limited	$ 4,712,739		
Reduction of			
Real estate assets	34,553,563		
	39,266,302	6,076,443	7,846,187
Application			
Reduction of			
Real estate liabilities	33,014,809	158,892	
Net additions			
Real estate		911,847	3,159,685
Merchandising		1,397,150	2,579,467
Repayment of long term debt including current maturities		4,039,197	2,118,919
Redemption of preference shares			10,860
Dividends paid		286,133	286,189
Increase in joint ventures		83,794	53,989
Purchase of shares			
Food City Limited	1,458,136		
	34,472,945	6,877,013	8,209,109
Increase (decrease) in working capital	4,793,357	(800,570)	(362,922)
Working capital, beginning of year	243,279	1,043,849	1,406,771
Working capital, end of year	$ 5,036,636	$ 243,279	$1,043,849

Consolidated
Balance Sheet
May 1, 1976

ASSETS	(Note 11)	1976	1975
Current			
Cash	$ 4,560,671	$ 2,825,309	$ 2,741,399
Marketable securities, at cost (market value note 11 $4,635,897; 1976 $6,889,983; 1975 $1,532,486)	4,371,119	6,623,225	1,411,215
Receivables			
Trade	4,020,641	4,861,114	4,673,480
Loans	853,000	860,000	320,026
Inventories, at cost	12,674,474	12,674,474	12,649,226
Prepaid expenses	312,044	754,531	607,122
	26,791,949	28,598,653	22,402,468
Mortgages and loans receivable	73,602	73,602	122,185
Investments			
Shares, at cost	1,458,136		
Joint ventures, at equity	190,283	190,283	106,489
	1,648,419	190,283	106,489
Real estate			
Property, at cost			
Land and interest in land leases		4,854,962	4,881,451
Buildings		33,278,718	32,310,144
		38,133,680	37,191,595
Accumulated depreciation		2,159,115	1,777,172
		35,974,565	35,414,423
Investment in joint ventures, at equity		8,748	
Other assets		397,860	442,268
		36,381,173	35,856,691
Merchandising			
Property, at cost			
Land	616,982	616,982	723,450
Buildings and parking facilities	4,044,881	4,044,881	3,975,829
Equipment	11,284,538	11,284,538	11,041,235
Leasehold improvements	3,388,490	3,388,490	2,675,412
	19,334,891	19,334,891	18,415,926
Accumulated depreciation	7,802,049	7,802,049	6,584,874
	11,532,842	11,532,842	11,831,052
	$40,046,812	$76,776,553	$70,318,885

Sobeys

LIABILITIES	(Note 11)	1976	1975
Current			
Bank loans (Note 2)	$ 3,701,370	$ 5,063,370	$ 4,557,279
Banker's acceptance	1,500,000	1,500,000	1,500,000
Other loans	82,000	230,000	230,000
Note payable		3,154,384	
Payables and accruals	16,013,786	17,933,117	14,650,547
Long term debt payable within one year (Note 3)	458,157	458,157	271,863
Income taxes payable		16,346	148,930
	21,755,313	28,355,374	21,358,619
Long term debt (Note 3)			
Real estate		27,912,232	28,640,644
Merchandising	4,461,113	4,461,113	5,018,750
	4,461,113	32,373,345	33,659,394
Minority interest	362,013	776,439	902,942
Deferred income taxes	540,681	5,228,832	4,758,463
SHAREHOLDERS' EQUITY			
Capital stock (Note 4)			
Authorized			
237,774 6¼% cumulative redeemable preference shares of $20 par value each, issuable in series			
750,000 Class "A" common shares without nominal or par value			
500,000 Class "B" common shares without nominal or par value			
Issued and outstanding			
62,231 preference shares, 1966 series	1,244,620	1,244,620	1,244,620
520,860 Class "A" common shares	1,739,850	1,739,850	1,739,850
254,000 Class "B" common shares	687,200	687,200	687,200
	3,671,670	3,671,670	3,671,670
Capital redemption reserve fund	10,860	10,860	10,860
Retained earnings	9,245,162	6,360,033	5,956,937
	12,927,692	10,042,563	9,639,467
	$40,046,812	$76,776,553	$70,318,885

On behalf of the Board

WILLIAM M. SOBEY, Director

DAVID F. SOBEY, Director

Notes to
Consolidated Financial Statements
May 1, 1976

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1. **Accounting policies**

A) Principles of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the subsidiary companies excepting one acquired April 29, 1976 and at May 1, 1976 was in the process of legal re-organization.

B) Depreciation and amortization

Real estate property

The sinking fund method is used to record depreciation on the real estate buildings, calculated as an amount which, compounded annually at the rate of 5% will fully amortize the cost of the buildings over 40 years. Equipment is depreciated on a diminishing balance basis at an annual rate of 20%.

Merchandising property

Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful life of these assets which varies from seven to twenty-five years. Leasehold improvements are amortized over the term of the related lease for improvements prior to May 3, 1975 and for a term not greater than fifteen years for improvements subsequent to that date.

C) Capitalization of costs

Expenses relating to construction in progress and certain lands have been capitalized as part of the cost of the property.

D) Joint ventures

The equity method of accounting is used for investments in joint ventures.

2. **Bank loans**

The bank loans are secured by an assignment of certain receivables and marketable securities and a fixed and specific mortgage and a first floating charge debenture against the assets of one of the subsidiary companies.

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3. Long term debt

	1976	1975
Real estate (Note 11)		
Term financing		
9% second mortgage		$ 1,050,000
7% note and mortgage payable	**$ 147,605**	271,605
Bank loans and advances at rates fluctuating with the prime rate	**8,079,022**	9,630,750
	8,226,627	10,952,355
Permanent financing		
$9^1/_2$% first mortgage loan to February 15, 1977	**3,291,004**	3,338,281
$10^1/_2$% first mortgage loan to December 15, 1979	**103,350**	105,034
7% debentures to April 1, 1980	**240,000**	260,000
$9^3/_4$% first mortgage loan to April 15, 1980	**223,411**	229,768
$9^3/_4$% debentures to January 15, 1981	**475,000**	500,000
$6^1/_4$% first mortgage sinking fund bonds to January 2, 1982	**439,000**	476,000
$6^1/_2$% first mortgage sinking fund bonds to October 1, 1982	**146,000**	157,000
$12^1/_2$% second mortgage loan to February 1, 1986	**2,494,844**	
9% first mortgage loan to October 1, 1987	**3,268,000**	3,420,000
10% debentures to October 1, 1993	**3,165,000**	3,210,000
$9^5/_8$% first mortgage sinking fund bonds to January 15, 1994	**3,617,000**	3,660,000
9% first mortgage loan to July 30, 1998	**2,200,000**	2,300,000
Mortgages maturing in installments to 1989 with interest rates of 6%-$10^1/_2$%	**22,996**	32,206
	19,685,605	17,688,289
	$27,912,232	$28,640,644

The permanent financing is secured by certain land and buildings.

3. Long term debt (cont'd)

Debt retirement payments in each of the next five years are:

	Term	Permanent
1977	**$ 683,315**	**$529,900**
1978	**$1,569,234**	**$570,900**
1979	**$2,595,629**	**$597,900**
1980	**$1,495,629**	**$550,200**
1981	**$1,664,503**	**$956,500**

The debt retirement payments do not include mortgages maturing in each of the next five years as it is anticipated that these mortgages will be renewed upon maturity.

The amount due in 1977 has not been included under current liabilities. In the real estate operations, the amount will be financed in the same period from rental income under lease agreements which has not been included in accounts receivable.

Merchandising			**1976**	1975
Sinking fund debentures				
Series		Maturity		
C	$4^3/_4$%	September 1, 1975		$ 215,000
D	6%	May 1, 1977	**$ 322,500**	345,000
E	6%	March 1, 1981	**550,000**	580,000
F	6%	April 1, 1984	**640,000**	670,000
G	$5^3/_4$%	April 15, 1985	**335,000**	350,000
H	6%	November 1, 1985	**700,000**	730,000
I	$7^1/_4$%	June 15, 1987	**760,000**	790,000
J	$8^1/_2$%	March 1, 1989	**790,000**	820,000
			4,097,500	4,500,000
Mortgages				
Mortgages, maturing in 1977 with interest rates at $9^1/_4$% and $9^1/_2$%, amortized to 1992			**213,120**	251,113
$10^3/_4$% mortgage maturing in 1980, amortized to 1995			**684,650**	695,000
			4,995,270	5,446,113
Current maturities (including bonds held for sinking fund purposes)			**534,157**	427,363
			$4,461,113	$5,018,750

The sinking fund debentures and mortgages are secured by land and buildings.

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3. Long term debt (cont'd)

Debt retirement payments in each of the next five years are:
1977-$534,157 1978-$192,020 1979-$195,262
1980-$198,894 1981-$602,961

The debt retirement payments do not include mortgages maturing in each of the next five years as it is anticipated that these mortgages will be renewed upon maturity.

4. Capital stock

The 1966 series preference shares may be called at par at any time and the company is required to provide a $30,000 fund each year, from which shares may be purchased for redemption. There were no shares purchased in 1976.

The company has reserved a maximum of 20,000 unissued Class "A" common shares to satisfy the conditions relating to share purchase warrants issued with the sinking fund debentures, Series J. These share purchase warrants entitle the bearers thereof to purchase 20,000 Class "A" common shares at the subscription price of $12 per share up to March 1, 1979. If these warrants were exercised, earnings per share would be diluted by $.02.

5. Income taxes

As at May 1, 1976 the company and its subsidiaries had accumulated losses of approximately $404,000 which may be applied to reduce future income taxes payable.

6. Extraordinary items

	1975
Insurance proceeds in excess of the net book value of building and equipment destroyed by fire	$467,664
Excess of purchase price over fair value of net tangible assets acquired (less deferred income taxes of $33,709 and minority interest of $36,418)	145,674
	$321,990

7. Commitments

Joint ventures

The company has an obligation to provide financing for construction cost overruns, if any, incurred by the joint venture projects. The obligation is related to the company's interest in the joint venture projects.

Long term leases

During the year the company paid $3,109,959 in rentals under lease agreements extending beyond five years from the balance sheet date. The company also received $7,417,574 rental income as lessor under long term leases.

Notes to
Consolidated Financial Statements
May 1, 1976

8. Contingent liabilities

The company has undertaken by separate agreement to provide cash to meet any obligations which Sobey Leased Properties Limited is unable or fails to meet until all of their debentures have been paid in full in accordance with their terms. Any deficiency payment made by the company will be in consideration of the issue to it of an appropriate number of fully paid and non-assessable 6% redeemable, non-voting preference shares. The aggregate outstanding principal amounts of these debentures is $2,595,000.

The company has guaranteed the following obligations relating to projects under development:

Sobey Leased Properties Limited	$ 250,000
Stephenville Mall Limited	$ 850,000
Granville Developments Limited	$1,900,000

9. Anti-Inflation Legislation

The company is subject to the Federal Government's Anti-Inflation Legislation which became effective October 14, 1975. This legislation controls prices, profits, dividends and compensation in Sobeys Stores Limited and certain of its subsidiary companies.

10. Comparative figures

The figures for the previous year have been reclassified, where necessary, to conform with the current year's presentation.

11. Subsequent events

On May 3, 1976 Sobeys Stores Limited received a cash dividend of $1,687,342 from Atlantic Shopping Centres Limited and subsequently sold its investment in that company for $4,712,739 in cash and securities. On the consolidated balance sheet, statement of retained earnings and statement of changes in financial position, note 11 gives effect to these transactions.

Auditors' Report

To the Shareholders of
Sobeys Stores Limited

We have examined the consolidated balance sheet of Sobeys Stores Limited as at May 1, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination of the financial statements of Sobeys Stores Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the subsidiary company, Lumsden Brothers Limited.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the companies as at May 1, 1976 and the results of their operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. R. Doane and Company
Chartered Accountants

New Glasgow, Nova Scotia
June 27, 1976

Consolidated
Ten Year History

Operations	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Depreciation	**$ 2,082,725**	$ 1,952,264	$ 1,629,666	$ 1,244,903	$ 1,006,834	$ 937,992	$ 759,471	$ 664,027	$ 577,885	$ 528,809
Interest on long term debt	**3,219,202**	2,741,279	2,278,745	1,140,067	748,739	805,987	436,941	328,009	312,920	263,076
Cash flow	**3,273,923**	3,430,467	2,705,300	2,424,114	2,074,443	1,826,278	2,347,505	2,105,345	2,016,951	1,579,791
Income taxes	**595,616**	723,020	556,886	512,813	389,924	371,031	700,006	640,044	638,715	491,708
Gain on sale of property and investments	**69,131**	181,508	234,803	129,482	165,409	165,841	285,377	130,308	106,183	200,411
Earnings before extraordinary items	**689,229**	758,226	425,198	742,492	742,959	677,503	988,337	829,712	807,764	752,952
Shareholders information										
Cash flow per share	**4.23**	4.43	3.49	3.12	2.68	2.42	3.20	2.87	2.73	2.20
Equity per share	**11.35**	10.83	9.72	9.24	9.15	8.89	8.44	7.73	8.35	7.81
Preferred share dividend	**6.25%**	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Common share earnings before extraordinary items	**.79**	.88	.45	.85	.85	.78	1.23	1.01	.98	.98
Common A share dividend	**.40**	.40	.40	.40	.40	.39	.36	.36	.32	.32
Average number of common shares outstanding	**774,860**	774,860	774,860	774,860	774,860	753,860	732,860	732,860	729,860	716,860
Financial position										
Working capital	**243,279**	1,043,849	1,406,771	1,573,502	2,325,738	2,299,736	1,269,225	1,764,079	1,641,712	457,993
Fixed assets	**47,507,407**	47,245,475	43,364,107	33,964,804	21,860,504	19,160,180	18,240,269	13,695,220	12,686,570	12,111,762
Long term debt	**32,373,345**	33,659,394	31,469,517	22,720,485	12,409,322	10,050,998	8,747,689	5,875,562	5,056,059	4,384,680
Net tangible assets per $1,000 debenture	**5,445**	4,734	4,114	3,735	3,533	3,300	3,116	2,729	2,908	2,944